

BEFORE THE TENNESSEE REGULATORY AUTHORITY AT

NASHVILLE, TENNESSEE

December 11, 2001

IN RE:

PETITION OF KENTUCKY UTILITIES
COMPANY FOR AN ORDER AUTHORIZING
THE ISSUANCE OF SECURITIES AND THE
ASSUMPTION OF OBLIGATIONS

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DOCKET NO. 01-00936

ORDER APPROVING DEBT ISSUANCE

This matter came before the Tennessee Regulatory Authority (the "Authority") upon the *Petition to Issue Securities Pursuant to T.C.A. Section 65-4-109* (the "*Petition*") of Kentucky Utilities Company ("Kentucky Utilities" or the "Company"). The Directors of the Authority considered the Company's *Petition* at a regularly scheduled Authority Conference held on November 6, 2001. Upon consideration of the *Petition*, the Directors made the following findings of fact and conclusions of law:

1. Kentucky Utilities is a corporation duly organized and existing under the laws of the Commonwealth of Kentucky, having its principal place of business in the City of Lexington, Kentucky, and is qualified to transact business in the State of Tennessee.
2. Kentucky Utilities is in the business of supplying electric power to ratepayers in Tennessee, and is therefore subject to regulation and supervision by the Authority pursuant to Tenn. Code Ann. § 65-4-101, *et seq.*
3. On October 25, 2001, Kentucky Utilities filed its *Petition* seeking approval of the proposed refinancing of a series of pollution control revenue bonds with the proceeds of a new

series of pollution control revenue bonds. The particular series of pollution control revenue bonds to be refinanced are (i) the \$20,930,000 principal amount of Carroll County, Kentucky Collateralized Pollution Control Revenue Bonds, 1992 Series B, due February 1, 2018, (ii) the \$2,400,000 principal amount of Carroll County, Kentucky Collateralized Pollution Control Revenue Bonds, 1992 Series C, due February 1, 2018, (iii) the \$7,200,000 principal amount of Muhlenberg County, Kentucky Collateralized Pollution Control Revenue Bonds, 1992 Series A, due February 1, 2018, and (iv) the \$7,400,000 principal amount of Mercer County, Kentucky, Collateralized Pollution Control Revenue Bonds, 1992 Series A, due February 1, 2018. In order to refinance these bonds, the Company would assume certain obligations under various agreements relating to the refunding of the existing bonds in an aggregate principal amount not to exceed \$37,930,000 and issue one or more series of Kentucky Utilities' first mortgage bonds in an aggregate principal amount not to exceed \$37,930,000 to collateralize the proposed new bonds, as further described in the *Petition*. According to the *Petition*, the purpose of the refinancing is to take advantage of current historically low long-term interest rates and thereby reduce Kentucky Utilities' costs of debt over the life of the bonds.

4. Kentucky Utilities states that in connection with the refinancing of the existing bonds listed above, Kentucky Utilities would assume certain obligations under one or more loan agreements with Carroll County, Muhlenberg County, and Mercer County, and may enter into guaranty agreements guaranteeing repayment of all or any part of the obligations under one or more refunding bonds for the benefit of the holders of such bonds.

5. The refunding bonds would be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions, with prices, maturity dates, interest rates, redemption provisions, and other terms and provisions to be determined on the basis of negotiations among Kentucky Utilities, Carroll County, Muhlenberg County, or Mercer County,

as applicable, and the purchasers of the bonds. However, the amount of compensation to be paid to underwriters for their services would not exceed two percent (2%) of the principal amount of the refunding bonds of each series to be sold. Based upon past experience with similar refinancings, Kentucky Utilities estimates the total costs, in addition to redemption premiums, of the refinancing of the four series of existing bonds to be approximately \$1,120,000.

6. All or a portion of the refunding bonds may be issued initially with interest rates that fluctuate on a weekly, monthly, or other basis as determined from time to time by Kentucky Utilities, including the issuance of auction mode refunding bonds. Kentucky Utilities would have the option to convert such refunding bonds at a later date to other interest rate modes, including a fixed rate of interest. In the event that variable rate refunding bonds are issued, Kentucky Utilities may enter into one or more liquidity facilities with a bank or banks to be selected by Kentucky Utilities. The liquidity facilities would be designed to provide Kentucky Utilities with immediately available funds with which to make payments with respect to any variable rate refunding bonds which have been tendered for purchase and not remarketed. Kentucky Utilities may also replace its current liquidity facility with one or more substitute liquidity support or credit support facilities with one or more banks, insurance companies, or other financial institutions to be selected by Kentucky Utilities. In connection with any liquidity facility, Kentucky Utilities also may enter into one or more credit agreements with the providers of such facility.

7. In connection with the issuance of the refunding bonds, Kentucky Utilities may also enter into one or more interest rate hedging agreements, including an interest rate swap, cap, collar, or similar agreement, with a bank or financial institution.

8. Under Tenn. Code Ann. § 65-4-109, the Authority is directed to approve the proposed assumption of debt obligations if it finds that it is to be made in accordance with law and that the Authority approves the purpose of the assumption of debt obligations.

9. The Authority concluded after careful consideration of the entire record and all applicable rules and statutes, particularly the provisions of Tenn. Code Ann. § 65-4-109, that this *Petition* should be approved. The Authority finds that this assumption of debt obligations is in accordance with law and is for a proper purpose.

IT IS THEREFORE ORDERED THAT:

1. Kentucky Utilities Company is authorized to assume certain debt obligations under various agreements in an aggregate principal amount not to exceed \$37,930,000 in connection with the proposed issuance of one or more new series of Carroll County, Kentucky, Muhlenberg County, Kentucky, and Mercer County, Kentucky, Collateralized Pollution Control Revenue Bonds.

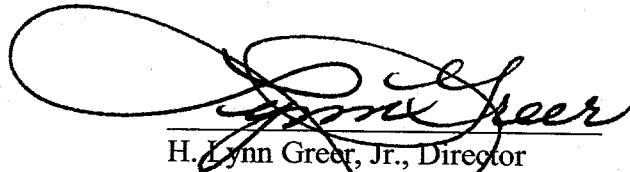
2. Kentucky Utilities is authorized to issue and deliver the above-referenced new first mortgage bonds in an aggregate principal amount not to exceed \$37,930,000 in the manner set forth in its *Petition*.

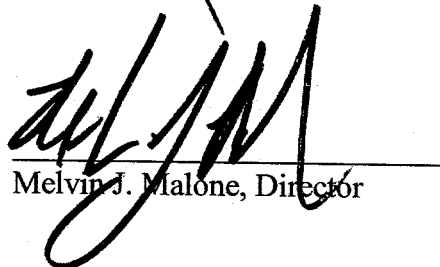
3. Kentucky Utilities is authorized to execute, deliver and perform the obligations of Kentucky Utilities under, *inter alia*, the loan agreements with Carroll County, Kentucky, Muhlenberg County, Kentucky, and Mercer County, Kentucky, and under any guarantees, remarketing agreements, hedging agreements, auction agreements, bond insurance agreements, credit agreements, and such other agreements and documents as set out in its *Petition*, and to perform the transactions contemplated by such agreements.

4. The authorization and approval given hereby should not be used by any party, including, but not limited to, any lending party, for the purpose of inferring an analysis or assessment of the risk involved to a purchaser of any pollution control revenue bonds issued as described in the *Petition* of Kentucky Utilities. Nothing contained herein creates or is intended to create any liability on the part of the Tennessee Regulatory Authority or the State of Tennessee or any political subdivision thereof for the transaction approved herein.


5. Any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from and after the date of this Order.


Sara Kyle, Chairman


H. Lynn Greer, Jr., Director


Melvin J. Malone, Director

ATTEST:


K. David Waddell, Executive Secretary